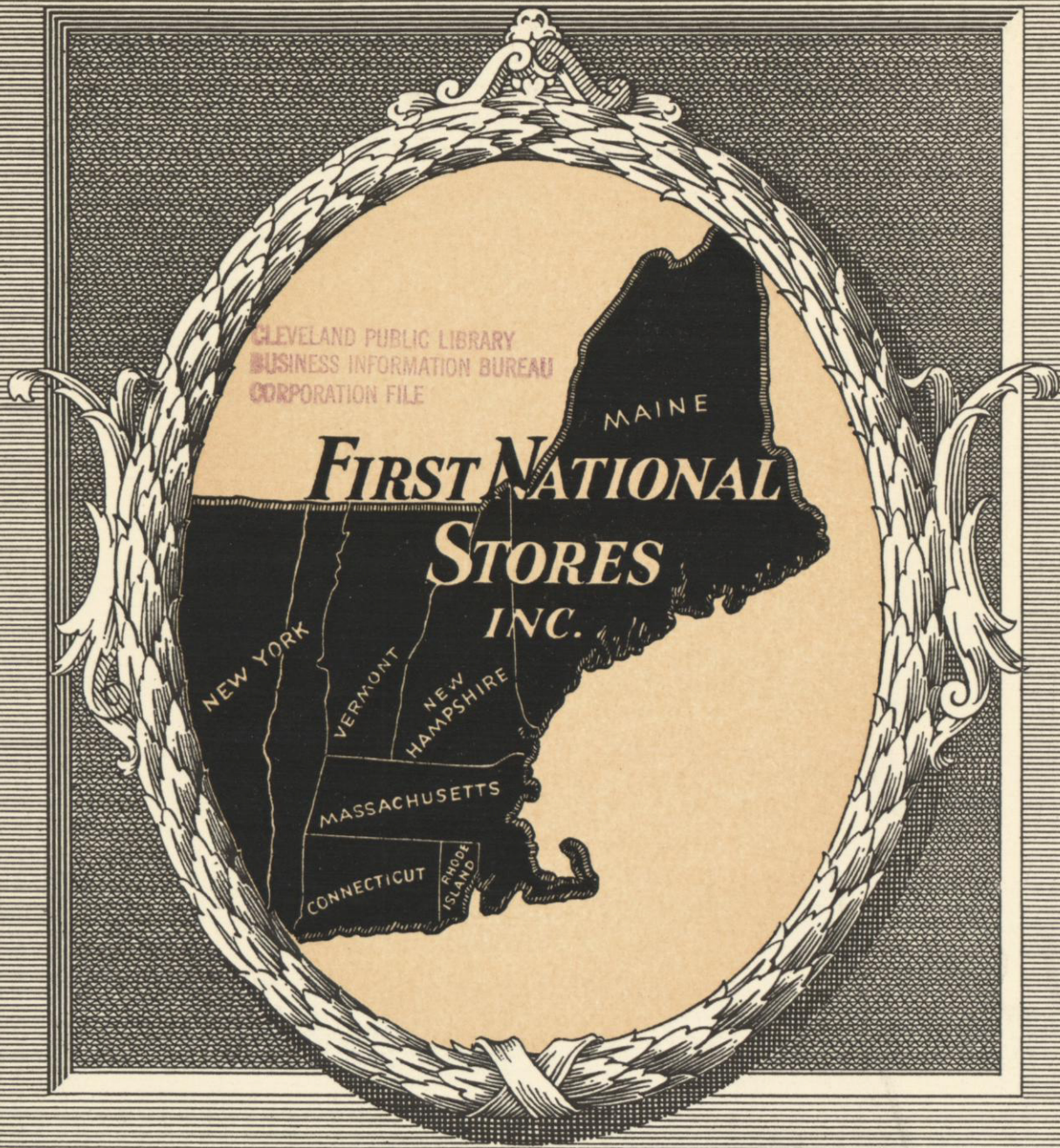


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Annual Report
FIRST NATIONAL STORES INC.

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year ending

March 27th 1937

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FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
BERNARD F. MCGOLDRICK
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS	SAMUEL JOSELOFF
CHARLES H. BURGER	JOHN L. MACNEIL
RALPH F. BURKARD	JAMES E. MALONEY
JAMES C. DUANE	BERNARD F. MCGOLDRICK
BYRON M. FLEMMING	JAMES J. O'HARE
ROBERT F. IRWIN	MICHAEL J. O'HARE
MORRIS JOSELOFF	ARTHUR O'KEEFFE

NATHANIEL E. WHITTEMORE

Somerville, Massachusetts, June 10, 1937.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 27, 1937, is presented herewith.

The figures given in this report are comparable with those of prior years as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent auditors, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this Report.

The following is a condensed summary of operations for the fiscal year ending March 27, 1937, compared with operations for the fiscal year ending March 28, 1936. There is also shown the financial position of this Company at March 27, 1937, compared with March 28, 1936.

	<i>For the Fiscal Years Ending</i>	
	<i>March 27, 1937</i>	<i>March 28, 1936</i>
Retail store sales	\$120,682,961	\$119,575,417
Net profits after taxes, depreciation and all charges and available for dividends	\$3,647,001	\$3,163,329
Earnings per share of common stock after preferred dividends paid during the year (on common shares outstanding at end of year)	\$4.24	\$3.65
	<i>As of</i>	
	<i>March 27, 1937</i>	<i>March 28, 1936</i>
Net working capital (current assets less current liabilities)	\$15,611,500	\$14,418,106
Fixed or property assets (less depreciation)	\$9,677,296	\$10,309,099
Net worth	\$26,369,140	\$25,761,849
Earned surplus	\$14,799,718	\$14,374,827

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

	<i>Fiscal Years</i>		
	<i>1937</i>	<i>1936</i>	<i>1935</i>
Depreciation charges	\$1,079,777	\$1,119,989	\$1,126,447

The above amounts were charged against earnings in their respective years to cover the depreciation on all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

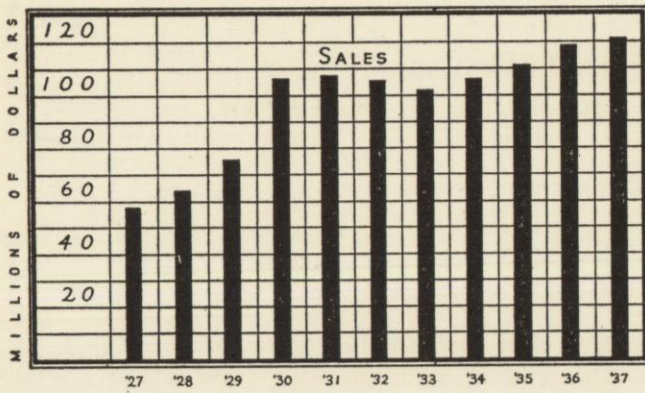
	<i>Fiscal Years</i>		
	<i>1937</i>	<i>1936</i>	<i>1935</i>
Maintenance charges	\$852,595	\$756,827	\$697,014

The above amounts were charged to earnings in their respective years to cover the upkeep and regular repairs of our fixed assets. We maintain these assets in good condition and high standard of efficiency at all times.

DIVIDENDS PAID

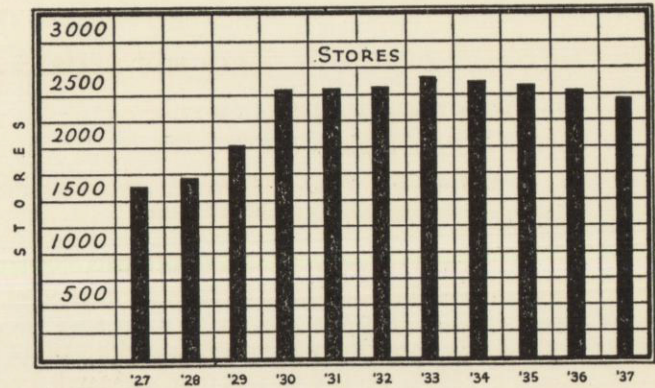
Regular quarterly dividends of \$1.75 per share totaling \$7.00 per share for the fiscal year were paid on the first preferred stock outstanding.

Dividends of 62½ cents a share per quarter totaling \$2.50 and a special dividend on December 21, 1936, of \$1.00 per share were paid for the fiscal year upon the common stock outstanding.



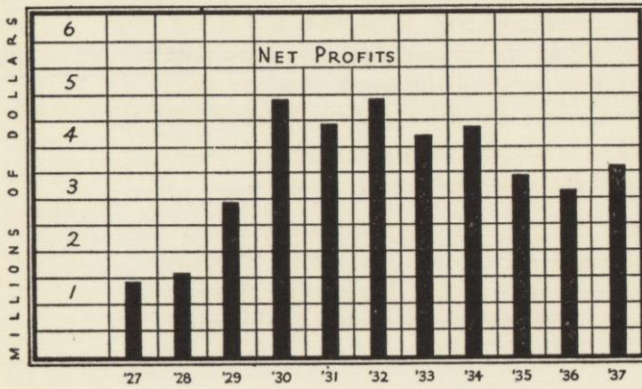
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1931	\$108,196,686	1935	\$111,323,463
1928	64,445,962	1932	107,634,383	1936	119,575,417
1929	75,884,639	1933	100,892,947	1937	120,682,961
1930	107,635,216	1934	105,812,781		



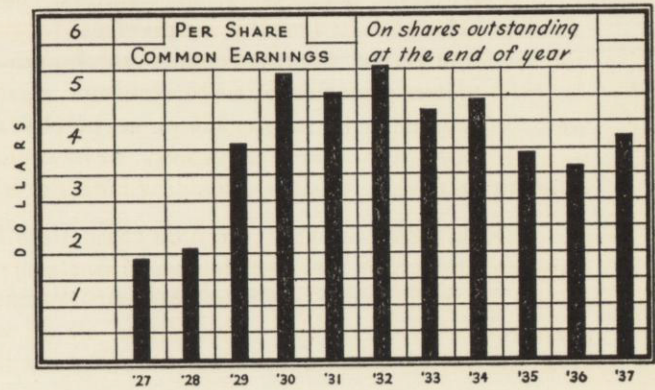
Stores—Fiscal Years

1927	1681	1931	2548	1935	2623
1928	1717	1932	2546	1936	2556
1929	2002	1933	2705	1937	2473
1930	2549	1934	2653		



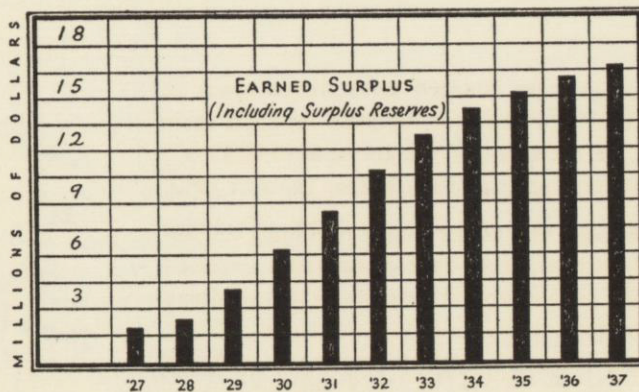
Net Profits—Fiscal Years

1927	\$1,492,193	1931	\$4,479,108	1935	\$3,433,504
1928	1,593,358	1932	4,825,611	1936	3,163,329
1929	2,904,884	1933	4,220,099	1937	3,647,001
1930	4,773,446	1934	4,394,830		



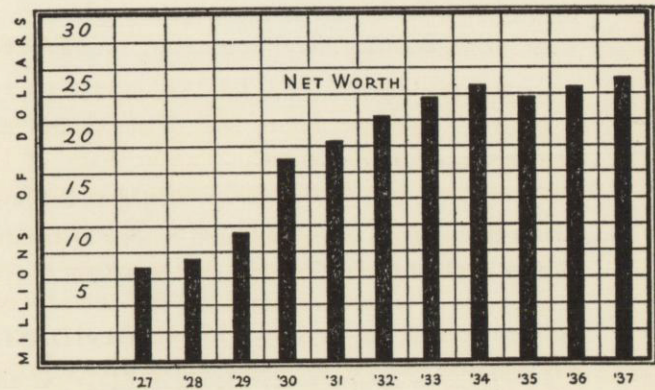
Per Share Common—Fiscal Years

1927	\$1.92	1931	\$5.03	1935	\$3.89
1928	2.09	1932	5.52	1936	3.65
1929	4.07	1933	4.78	1937	4.24
1930	5.39	1934	4.97		



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1931	\$8,371,910	1935	\$15,121,448
1928	2,238,303	1932	10,816,321	1936	16,062,827
1929	3,987,782	1933	12,666,672	1937	16,670,118
1930	6,369,726	1934	14,213,494		



Net Worth—Fiscal Years

1927	\$8,723,782	1931	\$20,349,333	1935	\$24,820,470
1928	8,965,710	1932	22,793,743	1936	25,761,849
1929	11,724,410	1933	24,644,094	1937	26,369,140
1930	18,347,148	1934	26,190,916		

GROCERY STORES AND MARKETS

	<i>March 27, 1937</i>	<i>March 28, 1936</i>
Your Company had in operation on		
Grocery stores	2,015	2,108
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	458	448
Total Grocery Stores and Markets	2,473	2,556

Again this year you will note a decrease in the number of grocery stores in operation; at March 27, 1937, we had 93 less than at March 28, 1936. This is in line with the recent trend in our Company of consolidating sales into fewer and larger stores. We opened ten new markets or combination stores during the year.

PUBLIC RELATIONS

Years before the term "public relations" became current as a description of those special activities which are designed to maintain and foster institutional goodwill, First National Stores' policies, in respect to the communities and the groups affected by its business dealings, have been designed by the management to be constructive, in the fullest sense of the word. For example, we have favored, as far as possible in our purchasing, the farmers and industrial suppliers in our own territory. In the case of the farmers, we have pioneered in developing plans for more economical distribution of their product, benefiting both the farmer and the consumer.

During the past year, the food chain store industry has adopted a type of national, concentrated promotion and distribution of emergency or seasonal agricultural surpluses. Already several successful campaigns have been put into effect with canned peaches, lamb, beef, turkeys, grapefruit and several other commodities, all of which is helping to develop better public relations for the food chain industry throughout the nation.

We have utilized our merchandising resources to the fullest extent in these campaigns, and at the same time have developed a program of agricultural co-operation in our own territory which is proving sound economically and also productive of substantial goodwill. In our Company public relations work, we work with specific objectives in mind, to familiarize various groups and individuals with our own operations in order that our own Company goodwill may be consolidated and developed.

TAXES

For the fiscal year ending March 27, 1937, earnings were charged with direct taxes of \$1,435,070. This amounts to 28% of our profits before taxes for the year, or \$568 for each store we operate, or \$1.75 for each common share, or 1.18% on sales; and is an increase of \$212,503 over last year. Our direct taxes continue to increase each year and are 80% higher than in 1930.

The problem of an increased burden of taxation remains one of the major problems of conducting a business such as ours. In the matter of special discriminatory type of taxation, assessed on the basis of number of stores and thus aimed specifically at our type of business, little headway has been made in our territory. In fact, the only tax of this type in the New England states, Maine, was repealed recently by action of the Maine Legislature. This tax method constitutes a threat and no doubt will continue to be advocated, but that it is economically unsound, discriminatory and punitive in nature has come to be realized more and more fully by legislators, and the consuming public has become fully conscious of the increased burden such taxation places upon the family budget.

STOCKHOLDERS

Our family of stockholders continues to grow. We now have over 10,000 stockholders widely distributed not only in practically every city or town in New England where our stores are located but throughout the rest of the United States and some foreign countries, as well. Today, each store of our company averages to be owned by four of our stockholders.

The following table shows the number of stockholders at various intervals since 1926:

	1937	1936	1935	1932	1929	1926
Number of common stockholders	8,095	7,316	6,576	4,607	1,975	1,304
Number of preferred stockholders	<u>2,174</u>	<u>2,193</u>	<u>2,276</u>	<u>2,669</u>	<u>2,571</u>	<u>2,835</u>
Total stockholders	<u>10,269</u>	<u>9,509</u>	<u>8,852</u>	<u>7,276</u>	<u>4,546</u>	<u>4,139</u>

TREASURY STOCK—OPTIONS

The balance sheet shows that your Company had 10,557 shares of common stock on hand in its treasury at March 27, 1937. Of that amount, which was acquired by purchase, 3,820 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

It again is a real pleasure publicly to express our thanks and appreciation to our large family of employees for their loyal support and co-operation during the past year. We have recently shortened the working hours of our store employees and increased employees' wages in general.

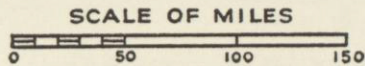
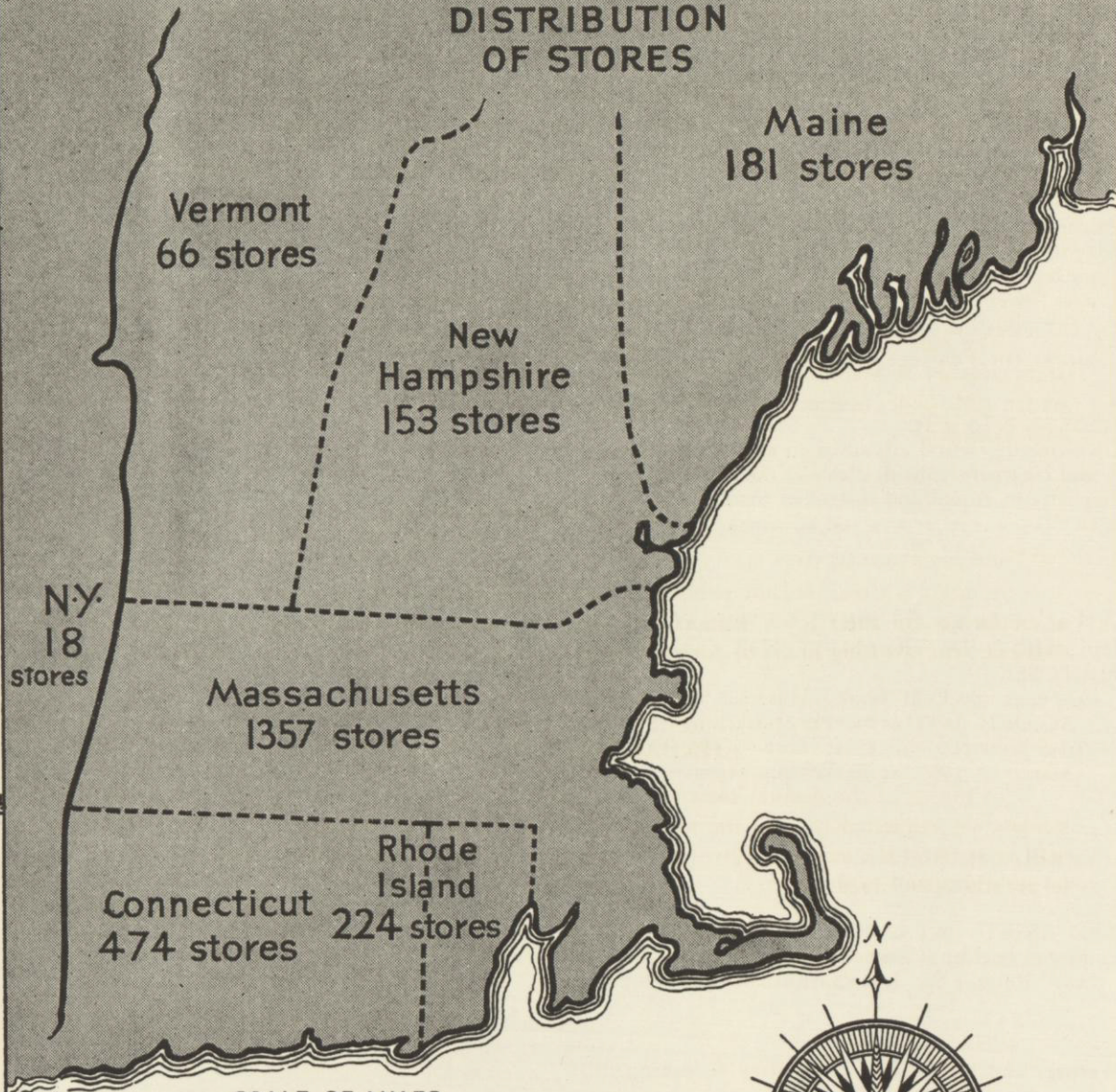
ANNUAL MEETING—PROXIES

A notice of the Annual Meeting of stockholders accompanies this report. Common stockholders are requested to sign the management's authorized proxy attached to their notice and *mail promptly* in the envelope provided. Your prompt co-operation in this important matter will be greatly appreciated.

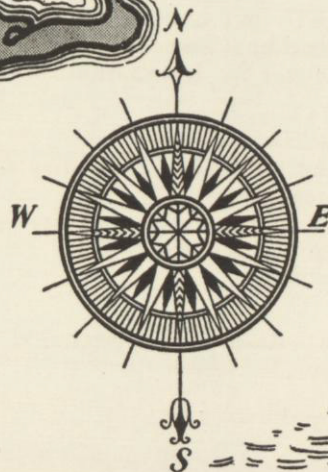
ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



Total Number of Stores
as of March 27, 1937
2473



72°

70°

FIRST NATIONAL STORES INC.

Comparative Balance Sheet—March 27, 1937 and March 28, 1936

ASSETS			
	March 27, 1937	March 28, 1936	Increase *Decrease
CURRENT ASSETS:			
Cash in banks and on hand (after deducting dividends paid April 1)	\$4,214,264.50	\$4,349,391.32	*\$135,126.82
U. S. Government and municipal securities (at market quotations March 27, 1937—approximately \$5,035,000)	5,025,527.85	3,513,532.78	1,511,995.07
Accounts receivable, less reserve	366,927.39	449,233.94	*82,306.55
Accounts receivable—officers and employees	11,904.68	9,866.71	2,037.97
Inventories of merchandise, materials and supplies on hand and in transit, at cost or market whichever lower (certified as to quantities and condition by responsible officials)	<u>11,178,573.31</u>	<u>10,838,203.37</u>	<u>340,369.94</u>
Total current assets	<u>\$20,797,197.73</u>	<u>\$19,160,228.12</u>	<u>\$1,636,969.61</u>
INVESTMENTS, ETC.:			
Investments in and advances to wholly-owned milk and creamery subsidiaries—at cost, less reserve	\$322,603.12	\$217,603.12	\$105,000.00
Deposits in closed and restricted banks, less reserve	1,781.77	19,558.72	*17,776.95
Miscellaneous securities and advances	84,775.22	148,149.76	*63,374.54
Total investments, etc.	<u>\$409,160.11</u>	<u>\$385,311.60</u>	<u>\$23,848.51</u>
CAPITAL STOCKS OF FIRST NATIONAL STORES INC. HELD IN TREASURY FOR CORPORATE PURPOSES:			
Common stock at book value—10,557 shares at March 27, 1937 (at market quotations—\$514,653)	\$533,255.88	\$559,655.88	*\$26,400.00
First preferred stock at cost—1,296 shares at March 27, 1937 (at market quotations—\$145,953)	137,334.31	136,564.31	770.00
	<u>\$670,590.19</u>	<u>\$696,220.19</u>	<u>*\$25,630.00</u>
DEFERRED CHARGES:			
Prepaid insurance and expenses	<u>\$557,537.77</u>	<u>\$475,518.07</u>	<u>\$82,019.70</u>
FIXED ASSETS (AT COST):			
Land and buildings owned	\$6,173,600.10	\$6,123,214.69	\$50,385.41
Less—Reserve for depreciation	1,262,168.26	1,106,612.33	155,555.93
	<u>\$4,911,431.84</u>	<u>\$5,016,602.36</u>	<u>*\$105,170.52</u>
Fixtures and equipment, etc. (after deducting fully depreciated assets)—			
Store fixtures, leased property improvements, machinery and equipment	\$9,206,247.32	\$9,609,026.11	*\$402,778.79
Automobiles	533,714.97	388,206.26	145,508.71
	\$9,739,962.29	\$9,997,232.37	*\$257,270.08
Less —Reserve for depreciation	4,974,098.04	4,704,735.66	269,362.38
	<u>\$4,765,864.25</u>	<u>\$5,292,496.71</u>	<u>*\$526,632.46</u>
Total fixed assets	<u>\$9,677,296.09</u>	<u>\$10,309,099.07</u>	<u>*\$631,802.98</u>
GOODWILL	\$1.00	\$1.00
	<u>\$32,111,782.89</u>	<u>\$31,026,378.05</u>	<u>\$1,085,404.84</u>

FIRST NATIONAL STORES INC.

Comparative Balance Sheet—March 27, 1937 and March 28, 1936

LIABILITIES			
	March 27, 1937	March 28, 1936	Increase *Decrease
CURRENT LIABILITIES:			
Acceptances payable under letters of credit	\$129,464.95	\$102,158.50	\$27,306.45
Accounts payable	2,870,008.90	2,790,883.62	79,125.28
Accrued taxes, rent and other expenses	909,773.78	875,874.37	33,899.41
Employees' investment certificates	406,370.00	402,720.00	3,650.00
Provision for federal taxes	870,080.36	570,486.33	299,594.03
Total current liabilities	<u>\$5,185,697.99</u>	<u>\$4,742,122.82</u>	<u>\$443,575.17</u>
RESERVES:			
For contingencies	\$334,600.58	\$334,600.58
For sinking fund preferred stocks	1,870,400.00	1,688,000.00	\$182,400.00
Miscellaneous	222,344.15	187,804.86	34,539.29
Total reserves	<u>\$2,427,344.73</u>	<u>\$2,210,405.44</u>	<u>\$216,939.29</u>
CAPITAL STOCK:			
7% first preferred—par value			
\$100 per share:			
Authorized and issued or held for exchange for			
8% preferred—27,216 shares	\$2,721,600.00	\$2,721,600.00
Common:			
Authorized—1,000,000 shares without par value			
Issued—827,634 shares	6,977,422.07	6,977,422.07
Total capital stock	<u>\$9,699,022.07</u>	<u>\$9,699,022.07</u>
EARNED SURPLUS	<u>\$14,799,718.10</u>	<u>\$14,374,827.72</u>	<u>\$424,890.38</u>
	<u>\$32,111,782.89</u>	<u>\$31,026,378.05</u>	<u>\$1,085,404.84</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have made an examination of the comparative balance sheet of First National Stores Inc. as at March 27, 1937 and March 28, 1936 and of the statements of earnings and surplus for the fiscal year ending March 27, 1937. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of all transactions.

In our opinion, based upon such examination, the accompanying comparative balance sheet and related statements of earnings and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at March 27, 1937 and March 28, 1936 and the results of its operations for the fiscal year ending March 27, 1937.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.
May 24, 1937.

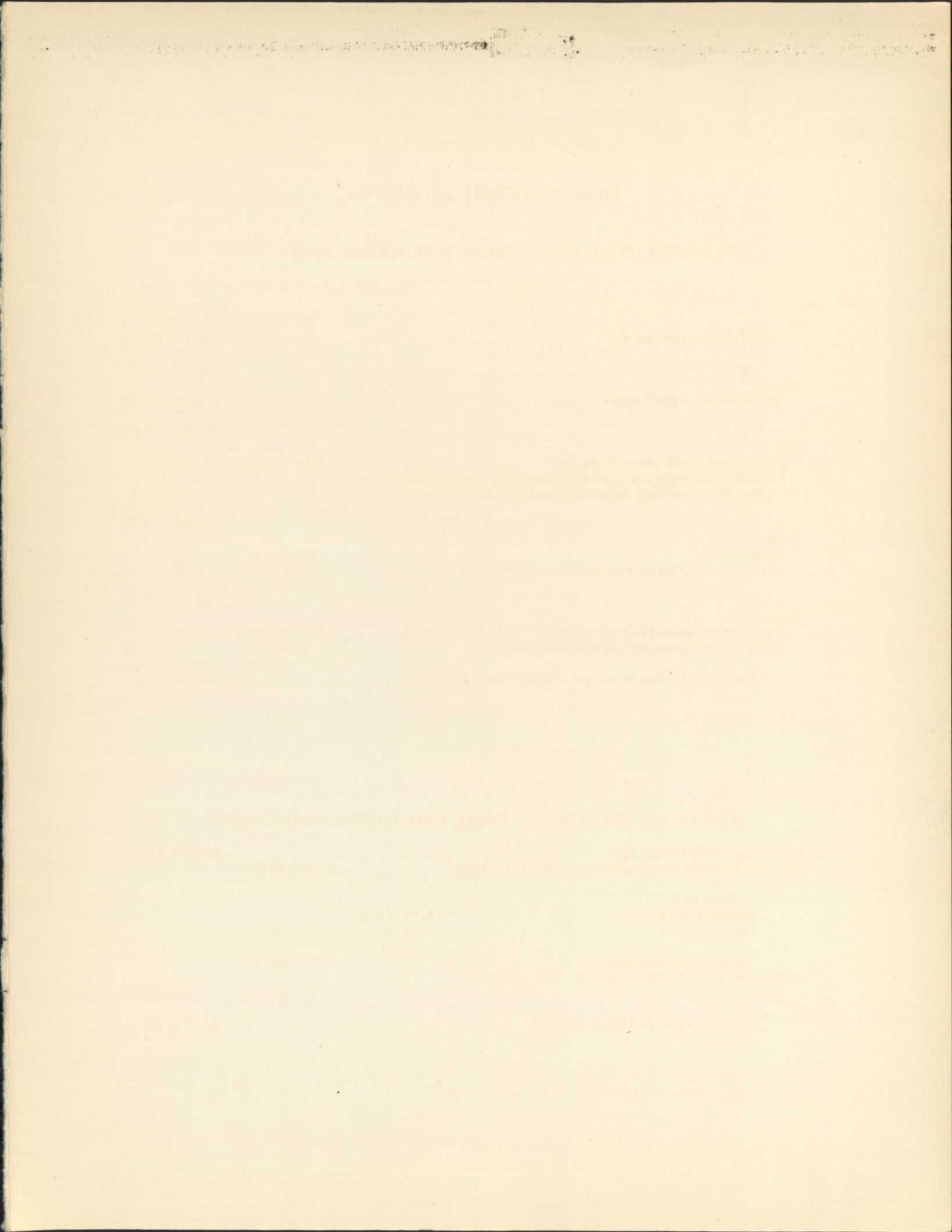
FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS—FISCAL YEAR ENDING MARCH 27, 1937

Sales		\$120,682,961.20
<i>Less:</i>		
Cost of sales, expenses, etc.		115,511,331.52
		\$5,171,629.68
<i>Deduct:</i>		
Depreciation on fixed assets		1,079,777.88
		\$4,091,851.80
<i>Add:</i>		
Interest and dividends received, etc.	\$214,713.90	
Refunds from suppliers covering processing taxes applicable to prior years, net after deducting windfall tax thereon	103,149.08	317,862.98
		\$4,409,714.78
<i>Deduct:</i>		
Interest paid	\$24,570.35	
Loss on disposition of fixed assets, etc. (net)	58,207.37	82,777.72
		\$4,326,937.06
<i>Deduct:</i>		
Provision for federal income taxes	\$657,435.08	
Provision for surtax on undistributed profits	22,500.00	679,935.08
Net profit for the fiscal year ending March 27, 1937		\$3,647,001.98

SURPLUS ACCOUNT FOR THE FISCAL YEAR ENDING MARCH 27, 1937

Earned surplus at March 28, 1936.		\$14,374,827.72
Net profit for the fiscal year ending March 27, 1937	\$3,647,001.98	
<i>Less:</i>		
Dividends paid:		
Preferred stock	\$181,415.85	
Common stock	2,858,295.75	3,039,711.60
Balance after dividends		\$607,290.38
Provision for sinking fund—7% first preferred stock	182,400.00	424,890.38
Earned surplus at March 27, 1937		\$14,799,718.10





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